

Message Text

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PAGE 01 SANTIA 07383 051936Z

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 /078 W

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R 051845Z DEC 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 1315

INFO AMEMBASSY LIMA

AMEMBASSY CARACAS

AMEMBASSY QUITO

AMEMBASSY LA PAZ

AMEMBASSY BOGOTA

LIMITED OFFICIAL USE SANTIAGO 7383

EO 11652: NA

TAGS: ECIN, EFIN, EGEN

SUBJ: ANDEAN PACT: SETTLEMENT OF CONTROVERSY OVER CHILEAN FOREIGN
INVESTMENT LAW

REF: LIMA 9777

1. EMBASSY GENERALLY IN AGREEMENT WITH REFTEL'S CONCLUSION THAT
NOVEMBER 12-14 COMMISSION FORMULA IS LITTLE MORE THAN FACE-SAVING
STANDDOWN BY ALL PARTIES IN DECISION 24/DL 600 FOREIGN INVESTMENT
CONTROVERSY. WE HAVE SOME DOUBTS, HOWEVER, THAT GOC WILL NOW
INTERPRET DL 600 TO APPLY ONLY TO BASIC AND SERVICE INDUSTRIES
SECTOR (PARAGRAPH 6, REFTEL). REASONS: A) GOC COULD NOT MAKE
ANOTHER SIGNIFICANT SHIFT IN FOREIGN INVESTMENT POLICY WITHOUT
DAMAGING FOREIGN INVESTOR CONFIDENCE WHICH IT IS TRYING TO
STRENGTHEN. SIGNIFICANT CHANGE TO DL 600 WOULD CONVINCE SOME
PROSPECTIVE FOREIGN INVESTORS THAT GOC SIMPLY NOT SERIOUS. B)
CHILE IS DESPERATE FOR FOREIGN CAPITAL INFLOWS AND CONVINCED MOST
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PAGE 02 SANTIA 07383 051936Z

OF THESE MUST TAKE FORM OF FOREIGN DIRECT INVESTMENT. STEMMING
THIS FLOW IN ANY WAY GOES AGAINST GOC OVERALL ECONOMIC POLICY.

2. DESPITE OUR ASSESSMENT THAT GOC WILL NOT REPEAT NOT MAKE SIGNIFICANT CHANGE TO DL-600, UNCERTAINTIES GENERATED AMONG PRIVATE INVESTORS BY THE AMBIGUITIES OF THE COMMISSION FORMULA TO "RESOLVE" THIS ISSUE MAY NONETHELESS MAKE IT MORE DIFFICULT FOR GOC TO ATTRACT CERTAIN TYPES OF NEW FOREIGN INVESTMENT SUCH AS FOR REGIONAL MARKET THAN IT WOULD HAVE BEEN HAD THIS ISSUE NOT ARISEN.

3. GOC OFFICIALS ARE UNSPARING IN THEIR COMMENTS REGARDING "ABSURDITIES" OF DECISION 24, REFERRING TO ENTIRE PHILOSOPHY AND NOT TO DETAILS SUCH AS PROFIT REMITTANCE LEVELS. THEY APPEAR GENUINELY CONVINCED THAT DECISION 24 WAS A MISTAKE THAT SHOULD BE BURIED AS QUIETLY AND QUICKLY AS POSSIBLE. ONE PERSPICACIOUS LOCAL OBSERVER WITH GOOD TIES TO GOC POLICY MAKERS CALLED ONGOING "NEGOTIATIONS" BETWEEN GOC AND OTHER ANDEAN MEMBERS A "MERE RITUAL DANCE" AS FAR AS CHILE WAS CONCERNED--APPEARING TO GO ALONG ON THE INTERNATIONAL FRONT WHILE SAILING ALONG ITS CHARTED COURSE NATIONALLY.

4. WE HAVE DISCUSSED FOREGOING WITH RICARDO CLARO AND RAUL SAEZ, PRINCIPAL ARCHITECTS OF CHILE'S FOREIGN INVESTMENT CODE. THEY CONFIRM OUR APPRAISAL OF GOC'S POLICY. CLARO DESCRIBED FORMULA AGREED TO AT NOVEMBER 12-14 COMMISSION MEETING AS "CONFUSED" AND INDICATED THAT CLARIFICATION OF ITS MEANING WOULD HAVE TO BE SOUGHT. APPARENTLY GOC IS NOT CONVINCED THAT ANYTHING WAS REALLY SETTLED AT COMMISSION MEETING EXCEPT PERHAPS THAT TONE OF ANDEAN DIALOGUE ON TREATMENT OF FOREIGN INVESTMENT SHOULD BE LOWERED FOR TIME BEING.
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